

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Annual Compliance Report, 2019

Docket No. ACR2019

CHAIRMAN'S INFORMATION REQUEST NO. 9
AND NOTICE OF FILING UNDER SEAL

(Issued January 31, 2020)

To clarify the basis of the Postal Service's service performance reporting in its FY 2019 Annual Compliance Report (ACR), filed December 27, 2019,¹ the Postal Service is requested to provide written responses to the following questions. Answers should be provided to the individual questions as soon as they are developed, but no later than February 7, 2020.

Customer Access

1. Of the 662 post offices suspended at the end of FY 2016, 250 post offices remained suspended at the end of FY 2018.² In the FY 2018 ACR, the Postal Service provided a timeline for resolving these 250 suspended post offices in FY 2019, but did not meet projected targets.³ Please explain in detail why the Postal Service was unable to meet this timeline.

¹ United States Postal Service FY 2019 Annual Compliance Report, December 27, 2019 (FY 2019 ACR).

² Docket No. ACR2018, United States Postal Service FY 2018 Annual Compliance Report, December 28, 2018, at 62 (FY 2018 ACR).

³ FY 2018 ACR at 65; Docket No. ACR2018, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update for FY19 Quarter 4, November 12, 2019, at 1-2.

2. Of the 662 post offices suspended at the end of FY 2016, 228 post offices remained suspended at the end of FY 2019. FY 2019 ACR at 61. Please provide a timeline and detailed plan for resolving these suspended post offices.

Customer Satisfaction

3. Please describe actions taken to improve customer satisfaction with Market Dominant products for residential and small/medium business customers in FY 2019. In the response, please explain whether these actions were effective.

Market Dominant Mail Fee Revenue

4. Please refer to Library Reference USPS-FY19-4, December 27, 2019, Excel files “FY19 MD Fee Distribution.xlsx” and “FY19 Special Services PRC.xlsx,” Library Reference USPS-FY19-NP28, Excel file “EOY_FY2019RPWextractfile.xlsx,” and Attachment A. Attachment A reproduces the fee revenue as reported in “FY19 MD Fee Distribution.xlsx” and compares it with fee revenue reported in the Revenue, Pieces, and Volume (RPW) report (“EOY_FY2019RPWextractfile.xlsx”).
 - a. Please confirm that the source of the data reported in “FY19 MD Fee Distribution.xlsx,” tab “MD Fees,” cells B9 and B10 is “FY19 Special Services PRC.xlsx.”
 - b. Please reconcile and explain the differences in First-Class Mail fee revenue as reported in “FY19 MD Fee Distribution.xlsx” with the “EOY_FY2019_RPWextractfile.xlsx,” tab “Rate Category RPW Data,” as shown in Appendix A.
 - c. Please confirm that the amount reported in “FY19 MD Fee Distribution.xlsx,” cell B25 as “Bulk Parcel Return Service” should be removed from Marketing Mail Fee Revenue in “FY19 MD Fee Distribution” and should instead be included as “Other Domestic Ancillary Services,” as it is reported in “EOY_FY2019_RPWextractfile.xlsx,” tab “RPW Report,”

cell E82. If necessary, please submit a corrected version of “FY19 MD Fee Distribution.xlsx” as part of your response.

USPS Marketing Mail

5. Please refer to the Postal Service’s response to Chairman’s Information Request No. 4, questions 37, 38, and 39, in which the Postal Service estimates the impact on contribution for USPS Marketing Mail Carrier Route, USPS Marketing Mail Flats, and USPS Marketing Mail Parcels, respectively, following the implementation of Docket No. R2020-1 price increases.⁴ The Postal Service states that in making these projections, it adjusted FY 2019 Cost and Revenue Analysis unit costs for inflation by increasing them by 1 or 2 percent. Responses to CHIR No. 4, questions 37-39. Please provide workpapers that support the Postal Service’s estimates. In addition, please provide a narrative that explains how increasing unit costs by 1 or 2 percent results in the additional contribution shown in each “FY 2020 Contribution Impact” table. *Id.*
6. In the FY 2019 ACR, the Postal Service states that the decline in per-piece revenue for USPS Marketing Mail Carrier Route was “likely due to a shift in composition of pieces within the product to lower-priced cells.” FY 2019 ACR at 15. The Postal Service also states that “the volume of pieces priced at the lower 5-Digit Carrier Route pallet (‘Pure CR Pallets’) . . . increased from 13 percent of all pieces in FY 2018 to 15 percent in FY 2019.” *Id.* Please explain why the increase in the percentage of Carrier Route pieces being processed on “Pure Pallets” did not result in a corresponding decrease in unit attributable costs.

Flat-Shaped Mail

7. Please refer to Attachments B and C, filed under seal.

⁴ See Responses of the United States Postal Service to Questions 1-41 of Chairman’s Information Request No. 4, January 24, 2020, questions 37-39 (Responses to CHIR No. 4).

- a. Please confirm that the average manual flat productivity for the facilities listed in Attachment B was 148 pieces per hour in FY 2019 and that these facilities manually processed an average of 5.1 million pieces in FY 2019. If not confirmed, please provide the average manual productivity for these facilities in FY 2019.
 - b. Please confirm that the average manual flat productivity for the facilities listed in Attachment C was 1,114 pieces per hour in FY 2019 and that these facilities manually processed an average of 5.1 million pieces in FY 2019. If not confirmed, please provide the average manual productivity for these facilities in FY 2019.
 - c. Please provide any known reasons why the facilities listed in Attachment B were significantly less productive the facilities listed in Attachment C.
 - d. For each facility listed in Attachment B, please explain what efforts the Postal Service will take in FY 2020 to improve manual productivity at the facility.
8. Please refer to the Attachment D, filed under seal, which provides information for two facilities (Facility 1 and Facility 2):
 - a. Please provide any known reasons why Facility 1 had a bundle breakage percentage that was three times greater than that of Facility 2 in FY 2019.
 - b. Please provide any known reasons why Facility 1 had a Flats Sequencing System (FSS) productivity that was 40 percent below Facility 2 in FY 2019.
 - c. Please provide any known reasons why Facility 2 manually processed more than six times as many manual pieces than Facility 1 in FY 2019.
 - d. For each facility, please disaggregate the total number of bundles into Incoming Primary, Incoming Secondary, Outgoing Primary, and Outgoing Secondary operations in FY 2018 and FY 2019.

- e. For each facility, please provide Automated Flats Sorting Machine (AFSM) volume and workhours by operation in FY 2018 and FY 2019.
 - f. For each facility, please list the average pieces per bundle in FY 2018 and FY 2019. If this data is unavailable, please explain why Intelligent Mail barcode (IMb) data cannot be used, and provide the best estimate of pieces per bundle for each facility.
 - g. For each facility, please provide the number of bundles on FSS pallets in FY 2018 and FY 2019. Please identify the percentage of the bundles on FSS pallets that avoided bundle processing in FY 2018 and FY 2019.
9. Please refer to Library Reference USPS-FY19-NP31, December 27, 2019, Excel file “NonPublic SV Data_FY15_FY19.xlsx.” Please provide the annual on-time departure percentage by facility for both mail destined for Destination Delivery Unit (DDU) facilities and mail destined for Destination sectional center facilities (DSCF) in FY 2018 and FY 2019.
10. Please refer to Library Reference USPS-FY19-45, December 27, 2019, file “Paragraph (e) -- Pinch Point Reports,” file “e.6 Surface Visibility,” Excel file “Public SV Data_FY15_FY19.xlsx,” and Library Reference USPS-FY19-NP31, December 27, 2019, Excel file “NonPublic NPA_Trips on Time Data_FY15_FY19.xlsx.”
- a. Please provide a narrative that explains how each “Utilization by Container Type” is calculated and explain how the Postal Service uses these data.
 - b. Please provide a narrative that explains how “Load Percentage” is calculated and explain how the Postal Service uses these data.
 - c. Please provide a narrative that explains how “% Trips On-Time,” “% Extra Trips,” and “Trips on Time Avg” are calculated and how the Postal Service uses these data.

11. Please refer to Library Reference USPS-FY19-45, December 27, 2019, file “Paragraph (e) -- Pinch Point Reports,” file “e.2 Mail Processing Variance,” Excel File “National MPVarFY15.19.xlsx” and Library Reference USPS-FY19-NP31, Excel file “NONPUBLIC MP Variance FY15_19.xlsx.” Please explain how the “MANUAL FLATS” volume and productivity are calculated in both library references. Please specifically explain whether the “MANUAL FLATS” volume is an actual or estimated volume. If it is an estimate, please explain how the estimate is calculated.
12. Please refer to Library Reference USPS-FY19-45, December 27, 2019, “Paragraph (e) -- Pinch Point Reports,” file “e.2 Mail Processing Variance,” Excel File “National MPVarFY15.19.xlsx,” tab “Target Narrative.” The Postal Service lists three methods that were used to develop “Target productivities.” Please identify which method was used to develop each FY 2019 “Target productivity.”

Inbound Letter Post

13. The Postal Service stated that when it detects potential remail activity, it “sends notices to origin postal operators with options, charges, rate calculations, and deadlines” in order to stop remail.⁵ The Postal Service notes that it detected potential remail activity from 14 countries in FY 2018 and FY 2019.⁶ The Postal Service sent notices to these countries, pursuant to Universal Postal Convention article 12.4,⁷ informing the designated operators that “the Postal Service reserves the right to charge more[.]” Responses to CHIR No. 4, question 16.a.

⁵ Docket No. CP2019-155, Responses of the United States Postal Service to Questions 1-10 of Chairman’s Information Request No. 1, June 7, 2019, question 4.

⁶ Responses to CHIR No. 4, question 16.a.

⁷ See Universal Postal Convention (2018), Article 12.4, available at: http://www.upu.int/uploads/tx_sbdownloader/actInThreeVolumesManualOfConventionEn.pdf

- a. Please confirm that the Postal Service sent invoices to all 14 countries from which the Postal Service detected remail, charging these designated operators higher rates.
 - b. If not confirmed, please explain why the Postal Service did not exercise its right to charge more for remailed Inbound Letter Post items.
14. The Postal Service sent follow-up notices regarding detected remail activity to three countries. Responses to CHIR No. 4, question 16.a. The Postal Service is not bound to deliver such items and has the right to either return them to the designated operator of posting or handle them in accordance with national legislation. See Universal Postal Convention, Article 12.4. Please confirm that the Postal Service has or plans to exercise these options for remailed items from countries that have not responded to the Postal Service's notices. If not confirmed, please explain why the Postal Service does not plan to exercise these options.
15. Please identify the individual countries with Inbound Letter Post mail flows in Calendar Year (CY) 2018 and CY 2019 that exceeded the annual tonnage thresholds above which the Postal Service may charge per-item and per-kilogram terminal dues in accordance with Articles 29.16, 29.17, and 30.6 of the Universal Postal Convention. Please confirm that the Postal Service charged these countries the applicable per-item and per-kilogram terminal dues.⁸ If not confirmed, please explain why the Postal Service did not charge these countries applicable per-item and per-kilogram terminal dues.

⁸ For Inbound Letter Post from UPU country groups II and III, and Inbound Letter Post from UPU country group IV voluntarily participating in the quality of service link to terminal dues, the CY 2018 terminal dues are found in UPU International Bureau Circular 77, May 5, 2019, Tables II.1, II.2, III.1, III.2, IV.4, and IV.5. The provisional CY 2019 terminal dues are in International Bureau Circular 88, Replacement August 20, 2018, Tables II.1, II.2 III.1, III.2, IV.4, and IV.5. Terminal dues for Inbound Letter Post from UPU country group IV that do not participate in the quality of service link to terminal dues are found in Articles 30.3 and 30.4 of the Universal Postal Convention.

16. Please refer to Docket No. ACR2018, Library Reference USPS-FY18-NP34, January 28, 2019, Excel file “ChIR.3.Q.13 IB LP Shape.Group.FY18.xlsx” (Docket No. ACR2018 USPS-FY18-NP34 file), tab “Summary,” cell P17. Please also refer to Library Reference USPS-FY19-NP9, December 27, 2019 (revised January 10, 2020), Excel file “IB LP Shape by UPU Group FY19.Rev.1.10.20.xlsx” (USPS-FY19-NP9A file), tab “Summary,” cell P33. Please reconcile the values in Docket No. ACR2018 USPS-FY18-NP34 file, tab “Summary,” cell P17 and in USPS-FY19-NP9A file, tab “Summary,” cell P33.

Financial Reporting

17. Please provide all supporting workpapers for the derivation of FY 2019 Total Factor Productivity (TFP).⁹

Competitive Domestic Products

18. Please refer to Responses to CHIR No. 4, question 1.
- a. The Postal Service identified Priority Mail Contract 406, Priority Mail Contract 548, and Priority Mail and First-Class Package Service Contract 4 as contracts that use non-eVS PostalOne as the payment method, and stated that non-eVS PostalOne does not store individual piece-level detail. Responses to CHIR No. 4, question 1. Please explain why non-eVS PostalOne is used as the payment method for these three contracts rather than other payment methods that store individual piece-level detail.
 - b. For contracts that use scan-based payment, the Postal Service states that it uses sampled pieces to calculate revenue and weight in PostalOne. *Id.* The Postal Service states: “These samples were used to distribute First-Class Package Service and Parcel Return Service to weight and zone for the first time in FY2019. This method was not applied to Priority Mail in

⁹ Library Reference USPS-FY19-17, 2019 Annual Report and Comprehensive Statement of Postal Operations, December 27, 2019, at 34.

time for production of USPS-FY2019-NP27. Samples will be used to produce Priority Mail profiles in FY2020.” *Id.*

- i. Please confirm that this sampling was used to distribute First-Class Package Service (FCPS) and Parcel Return Service (PRS) weight and zone only for contracts using scan-based payment. If confirmed, please identify these FCPS and PRS contracts. If not confirmed, please answer questions 18.b.ii and 18.b.iii.
 - ii. If the answer to question 18.b.i is “not confirmed,” please identify all contracts affected by this change to using sampled pieces to calculate revenue and weight. Please also identify all files in USPS-FY19-NP27 or other library references affected by this change.
 - iii. If the answer to question 18.b.i is “not confirmed,” please explain how the change to using sampled pieces to calculate revenue and weight represents an improvement upon the existing method of reporting weight and zone data for FCPS, PRS, and Priority Mail.
- c. The Postal Service states that the Product Tracking Report (PTR) contains actual weight and zone for more than half of the pieces for Priority Mail Contract 77, permitting PTR data to be used to create the partner profile going forward. *Id.* For Priority Mail & First-Class Package Service Contract 80, however, the Postal Service states that it will continue to rely on the projected partner profile filed when the contract was submitted to the Commission for pre-implementation review. *See id.*
- i. Please explain how data is collected for the PTR, including the factors that contribute to whether a contract’s weight and zone data is captured in the PTR.

- ii. Please identify possible methods for collecting sufficient weight and zone data for Priority Mail & First-Class Package Service Contract 80 to avoid the need to rely on the projected partner profile going forward.
- 19. Please refer to the Responses to CHIR No. 4, question 2. The Postal Service states that once package platform is fully deployed, it expects to collect weight information on 50 percent of packages. *Id.* Please explain why the Postal Service expects to have actual weight information on only 50 percent of packages rather than 100 percent of packages.
- 20. Please refer to the Responses to CHIR No. 4, question 4. The Postal Service states that 127 of the contracts identified in this question were terminated prior to the May 2019 establishment of improved internal reporting procedures for NSA terminations created in response to Order No. 5053.¹⁰ The Postal Service states that the failure to report these early terminations was due to the same inadequate processes the Postal Service identified in the notice the Postal Service filed in response to Order No. 5053.¹¹ In the response to Order No. 5053, the Postal Service committed to following multiple new internal procedures, one of which was a quarterly review in which the Postal Service would compare the most recent version of the Mail Classification Schedule (MCS) with the Postal Service's records to identify any necessary corrections. Response to Order No. 5053 at 4-5. Please confirm that the Postal Service conducted the quarterly reviews described in the Response to Order No. 5053. If confirmed, please

¹⁰ See *id.*; Docket No. MC2016-20, *et al.*, Order Requiring Additional Information, April 10, 2019 (Order No. 5053).

¹¹ *Id.* See Docket No. MC2016-20, *et al.*, USPS Notice in Response to Order No. 5053, May 10, 2019 (Response to Order No. 5053).

explain why these reviews failed to identify any of these 127 contracts that were listed on the MCS as active during FY 2019 but listed in the Postal Service's records as terminating prior to FY 2019.

21. Please refer to Library Reference USPS-FY19-NP27, December 27, 2019, Excel file "NSACostRevenueSummary_FY19.xlsx," tabs "SummaryByClass" and "NSA2019 - DomesticCP - Summary." Please confirm that Priority Mail Express, Priority Mail & First-Class Package Service Contract 52 is accounted for in the product count for in First-Class Package Services product count, and that Priority Mail Express, Priority Mail & First-Class Package Service Contract 49 is accounted for in the Priority Mail Express, First-Class Package Service, and Priority Mail product count. If confirmed, please explain why these Priority Mail Express, Priority Mail & First-Class Package Service contracts are being accounted for differently in the product counts. If not confirmed, please identify how these contracts are accounted for in the product counts.

Competitive International Products

22. Please refer to the Responses to CHIR No. 4, question 5. The Postal Service identified two international contracts that did not cover their attributable costs that have not expired or are not about to expire. *Id.*
 - a. With respect to the contract in Docket No. CP2009-28, please identify the remedial measures the Postal Service will take to ensure this contract covers its attributable costs.
 - b. With respect to the contract in Docket No. CP2015-52, please confirm that the Postal Service charged the mailer twice the price listed in Annex 1 of

the contract in accordance with Article 27 of the contract.¹² If not confirmed, please explain.

23. The Postal Service states that the Inbound Competitive Multi-Service Agreement with Foreign Postal Operators 1 product did not cover its costs because the only agreement within that product did not cover its attributable costs. FY 2019 ACR at 68. The Postal Service notes that a modification to the rates in this agreement, “which should improve cost coverage for the agreement in FY 2020” was pending before the Commission. *Id.* (footnote omitted). The Commission approved the modification to the rates in this agreement on December 31, 2019, based on FY 2018 costs.¹³
- a. The FY 2019 costs for this product differ from the FY 2018 costs submitted with the modification. Please file in this docket updated financial workpapers for the CP2018-96 contract using the FY 2019 costs found in Library Reference USPS-FY19-NP2, Excel files “Domestic Tran Calcs.xls” and “Reports (Unified).xls.”
 - b. Please describe the impact of using the FY 2019 costs on the projected cost coverage of the product.
 - c. If the projected cost coverage of the product falls below 100 percent when using FY 2019 costs, please explain what actions the Postal Service will take to improve the cost coverage of the agreement.
24. Please see Attachment, filed under seal.

¹² See Docket No. CP2015-52, Notice of the United States Postal Service Filing of a Functionally Equivalent International Business Reply Service Competitive Contract 3 Negotiated Service Agreement, March 16, 2015, Attachment 1 at 4.

¹³ Docket No. CP2018-96, Order Approving Modification Three to an Inbound Competitive Multi-Service Agreement with Foreign Postal Operators 1 Negotiated Service Agreement, December 31, 2019.

25. Please see Attachment, filed under seal.

By the Chairman.

Robert G. Taub